IMPORTANT INFORMATION

ON

BANKING

EXCHANGE

CURRENCY

INTEREST

AND

VALUE OF

Bank Stocks

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The Causes of Financial Crises

AND

How to Prevent Them.

DEDICATED TO THE PEOPLE

BY

GEORGE D. GRIFFIN,

Editor of THE CANADIAN QUARTERLY REVIEW *and* THE DOMINION WATCHMAN.

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Canadian Banking.

Introduction.

It is sometimes said that ignorance is bliss, if that be true the Canadian public has had abundance of bliss accruing from its ignorance of our system of banking, currency, exchange, rate of interest and real value of bank stocks, as well as of the primal causes of our financial crises. These have been attributed, by some who are trusted in, to sun spots, in place of to false ideas and practices in connection with banking, currency and exchange, not only in Canada, but also in other countries. In these pages explanatory facts and data will be given through which these questions will be clearly understood, and as well the causes of all our financial crises and in what way we can prevent them—Prevention of evil is better than cure; wisdom is better than riches, much better than the riches periodically consumed in our disastrous periods of loss, bankruptcy and ruin.

Money or Deposit Banks.

The primal object of money banks was to have a secure place where money could be deposited, and the early custom was to pay the banker a certain percentage for its safe keeping. In many large cities there are such places now with small vaults in them which are let at so much a year, where the party renting can deposit either money, papers or other valuables, and these banks are money banks.

Discount Banks.

In process of time those who had money banks began to lend any funds of their own or that others would leave with them for that purpose, exchanging their money for the note of the borrower, more or less guaranteed by other parties, and from which they would deduct interest in advance, whereby the practice was called discounting, and thus such banks became both money and discount banks.

Banks of Issue.

After a time the idea was conceived of lending bank notes in place of money, under which the money was kept in the bank and the notes issued in place of

it. In that way discount banks became more or less banks of issue. The next step was to get Government to grant them the privilege of issuing three dollars of their notes, or currency because made current by the Government, for every dollar in money in the vaults, the stock-holders being made personally liable to twice the amount of their stock as a guarantee for the payment of the notes in gold when presented. Through this privilege the banks secured three rates of interest or twenty-one per cent. in place of seven per cent. The banks believe that the privilege of such issues is a right conferred by Government. In that idea they are entirely mistaken; a Government may confirm a right, but it cannot make a right nor confer a right, for all rights are innate. The function of issuing currency belongs to Government and all benefits accruing therefrom belong to the whole people. Consequently every charter or privilege to issue a currency whereby the whole people are deprived of all or any of the profits from the issue of it is a fraud upon or robbery of the people by the Government for the benefit of a few stockholders.

True principles can alone secure true results and all fallacies arise from the disregardance of them, a fact which is amply confirmed in this currency matter. In place of being able to issue three dollars of currency for one of capital, as contemplated in the bank charters, the expectation has been reversed, for the average issue in Canada during many years has only been one dollar of currency for three dollars of capital, which at seven per cent. only yielded three and a half per cent. in place of the twenty-one per cent. anticipated. In place of being able to increase their capital twenty-five per cent. out of profits, fully twenty-five per cent. of all the money invested in Canadian bank stocks has been entirely lost.

Exchange Banks.

A bank of exchange is one where bills of exchange are bought and sold. These may be either national or international. A national one is practically an order drawn by a merchant in Hamilton upon a merchant in Toronto or Montreal, but to be a true one it should be accompanied by a bill of lading of some of the products of the country, or value, at least worth as much in Toronto or Montreal as the bill of exchange

amounts to and which have been shipped to the party upon whom the order or bill has been drawn. The bank holds the bill of lading as collateral security for the full payment. An international bill of exchange is an order drawn in the same manner upon a merchant in a foreign country, to whom the drawee has shipped produce. These international bills of exchange answer all the purposes of gold to pay for goods or for the payment of debts in the country to which they are sent or consigned.

These exchange banks purchase the bills of exchange from the drawees and sell them to merchants or others who wish to make purchases or payments either in Canada or in foreign countries as the case may be. The price or advance charged for them depends upon their abundance or scarcity, just as the price of gold varies according to the slack or urgent demand for it. If the bill of exchange drawn is not secured by the bill of lading it is not a true one, for the bank runs the risk of losing the amount, as seen in a late case in New Brunswick where a bank lost nearly $90,000 by one firm alone. In the Canadian chartered banks there are united the functions of money deposit banks, banks of discount, issue and exchange; their method of securing exchange being to lend their notes, and not gold, to produce-buyers or manufacturers who pay them out for produce or to workmen and for material. When the goods are shipped the banks are paid with the bills of exchange drawn against the shipments which, if to a foreign country, take the place of gold in making payments.

Bank Charters.

The charters originally granted to our Canadian banks gave them permission to receive deposits, to discount, to issue currency and to sell exchange, thus combining the functions of the four kinds of banks under one head. It also gave them permission to issue bank bills or notes to the extent of three times the value of the specie in the vaults. As before said it was at first supposed that there would be no difficulty in keeping all the capital or gold in the vaults and in lending their notes or currency to three times the amount, as was once done for a short time in Scotland under exceptional circumstances, but it can never be done in a country that imports more than it exports.

If they could have lent their notes as expected they would have received at seven per cent. in advance, about $225,000 income from every $1,000,000 capital in place of $70,50c. This temptation or promise of getting rich three times as fast by lending their debts as by lending their earnings has from time to time led a large number to invest in bank stocks. About one-fourth of the amount so invested has been sunk in bad debts, which had their origin in the inequitable permissions or privileges granted in the bank charters. They bring about their own destruction, for such excessive gains ruin the class from whom they are taken and eventually ruin the receiver.

Bank Capital.

In granting charters for banks the Government clearly understood that the capital upon which the banks would do business would be paid in gold; but the system of getting rich faster on the interest of what they owed than up n their earnings led some of the persistent promoters of new banks to conceive an advance or double debt system; for example, a man from whom no creditor could collect ten dollars would be induced to take stock to the amount of say $1,000, with the promise of discounts to the extent of eighty-five per cent. of the amount. On the faith of such discount a friend would lend the fifteen per cent. or $150, which was immediately recouped to him out of the discount, the bank holding a lien on the stock as collateral security, the balance of $850 became paid up capital of the bank. This advantage of lending three dollars of the bank debt for one dollar of his debt led the delighted stockholder to imagine that such profits would at no distant day pay off the amount and he would gain $1,000 dollars for which he had never labored. It is true that many who took stock and paid it by such discounts were good for the amount, and yet it would have crippled most of them and ruined many to have been compelled to pay the amount.

In process of time, as the deposits flowed in and the banks began to get a standing, speculators would buy up more or less of such stock at a discount, gobbling up any profits that may have been supposed to have accrued and leaving most of the flies that were caught in the web to escape with the loss of more or less of their financial life blood or earnings. In proof of this statement of this system of doing things the bank returns show that the amount of stock in use by the directors and the firms to which they belong, on

February 28th, 1883, was $8,571,353. No doubt the amount drawn by stockholders who are not directors would bring up the amount to over $10,000,000 or about ten per cent. of the capital, showing that the net capital of the banks is not over $51,000,000 in place of the supposed $61,000,000, consequently they have that much less security to stand against their net liabilities.

It is on this capital supposed to be paid up in gold that the bank is understood to do business, but its monthly returns prove this to be a delusion, and that every dollar of gold paid in upon the capital is forestalled for exchange before it is received, deposits being used to tide along with. The enemies of the banks and of the country, who drive banks to this necessity, are the merchants who over import or purchase more from other countries than we can export to pay for them. To pay the balance against the country the importers, through the bank notes, demand gold or exchange, which in this respect is the same thing. The monthly returns of the banks prove that this drainage of capital by the importers as fast as paid in has been going on ever since the first bank return was made, and will as long as there are over importations. The present paid up capital, February, 28th, 1883, is $61,137,288.

Bank Deposits.

There are four kinds of bank deposits; viz., business deposits, public or casual deposits, deposits on interest and Government deposits.

BUSINESS DEPOSITS.

The first or business deposits are the balances which the customers of the banks are expected to leave on deposit with the banks when they get a note discounted, and range from fifteen to twenty-five per cent. of the amount borrowed; if below fifteen per cent. the banks are not satisfied: the average may be placed at twenty per cent. This is an indirect bonus from the customer for the use of the bank debts as currency, through which a seven per cent. rate realizes to the banks eight-and-a-half per cent. interest. These balances in the sworn statements of the banks are called deposits, but that is simply fiction, for a deposit in a money bank must be money, whereas these business deposits are only balances of the banks' debts, for which they are in debt to their customers. They are not money and never were, in fact they never had anything but a mythical existence, consequently they are but the shadows of bank debts that the bank customers pay interest on.

The aggregate amount of the loans and discounts, February 28th, 1883, was in round numbers about $180,000,000. An average of twenty per cent. for balances, above referred to, shows them to be about $36,000,000, which at seven per cent. is about $2,500,000 annually paid by the business men to the

banks for the use of the shadow of a debt. That amount is enough to support 5,000 families of five each at $500 a year, or a city of 25,000 souls. Is it any wonder that so many business men fail and that their failure re-acting on the deluded stockholders consumes all their imagined profits? Where there is no value given there can be no ultimate profit.

PUBLIC OR CASUAL DEPOSITS.

The public or casual depositors are those of the public who simply put their money in the bank for safe keeping, and are called deposits on demand. In the bank returns they are classed with the business deposits, which on the above date were stated to be $44,574,453 from which the deduction of the $36,000,000 of business deposits leaves only 9,574,453 for public or casual deposits which alone can be called money. This shows the importance of understanding these matters.

DEPOSITS ON INTEREST.

The third class of deposits, called deposits payable on notice, cannot be drawn out except on the usual three months' notice. On these the banks pay interest to the depositors. The amount of such deposits received from the public was, February 28th, 1883, $51,530,448, which at an average rate of four per cent. yields the depositors about $2,000,000 annually, or at $500 each enough to support 4,000 families or a city of 20,000 souls. It will be seen that the interest paid to depositors for the use of their money eats up four-fifths of what the banks receive on the mythical sum of $36,000,000 of business deposits on which they charge their customers interest.

It is easy to see that between the payment of this interest and loss by the bad debts of their customers, who are required to pay interest on what they never had, the use of all the interest paid by such customers has been no gain to the stockholders; they gave no value and in the end received none. Ultimately the depositors who draw the interest are no better off than the stockholders, for the sworn returns show that every dollar of their deposits is sold to the importers as fast as they are paid in, and are thereby sent out of the country to pay for over importations. If these deposits had not been sold the amount of specie in the bank returns would show them there, whereas there is not enough gold in the banks to cover Government deposits. As all these deposits go to the importers they must pay for the use of them, and where the banks pay interest on them the importers must pay proportionately higher, either in increased interest or increased rates for exchange, for the banks must have their margin. All this increase paid by the importers to the banks is charged against the goods imported, with profit added, which is to a very large extent, if not entirely, eventually paid by said depositors. This amply proves it to be unsound for a bank to pay interest on deposits; that whatever imaginary gain

there may be to the stockholders is counterbalanced by increased bank expenses and increased risks, through which all expected gain is consumed and often a portion of the bank stock with it. Moreover, when a bank begins to pay interest on deposits it is because it has already sold its capital to the importers to pay for over importations. This is doing business upon credit, drawing interest upon debts and not on capital; in fact it is doing business in violation of the principles upon which the charters were granted.

GOVERNMENT DEPOSITS.

The Government deposits, which in this exhibit include both those on interest and not on interest, Provincial as well as Dominion, on the above date amounted to $9,623,274. At that date the banks had only $6,709,348 in specie and $10,198,436 in Dominion notes, which are counted to the banks as gold, together amounting to $16,907,784. Under their renewed charters they are obliged to hold in specie and Dominion notes, as guarantee for their notes in circulation, forty per cent. of such issue, which according to the last report, February 28th, 1883, was $34,044,909 and the guarantee $13,617,963. The difference between this and the notes and specie on hand is $3,289,821, which they can draw from Government, and this is all the cash they all possess to stand against the $9,574,453 of casual deposits, showing a deficiency of $6,284,632, and not a dollar in cash to stand against the $51,530,448 of deposits on interest or against $20,426,945 of notes not covered by the guarantee, and not a dollar to stand against all the paid up capital, or but very little over three per cent. of their liabilities, which after deducting said notes and some $10,000,000 improperly invested in business in the States are about $125,603,492. This system of carrying on banking business has been trusted in for the last thirty years and while there is no immediate danger to the public of a collapse, it is clear that it is entirely unsatisfactory.

True Bills of Exchange.

The principle on which foreign exchange business should be done by our banks, as clearly contemplated in their charters, is to lend their notes, secured by their capital, to business men who make shipments to other countries, the business men making payments for such advance or loans with the bills of exchange drawn against the shipments, the banks being guaranteed by the bills of lading. The banks in turn should sell the bills of exchange to merchants or other parties who wish to purchase goods or pay debts in the country to which the shipments were made, thus getting interest on their notes and profit on the sale of the bills of exchange. But any sale of exchange upon a foreign country beyond that secured by lending its notes, or that accruing from the deposits of other countries to be permanently invested in this country, is not a legit-

imate transaction ; it is a practical violation of their charters, it is selling the seed or egg from which profit alone can come.

Selling Bank Capital.

When a merchant buys from a Canadian bank a bill or order upon a banker or other party in a foreign country and the bank has no foreign bill of exchange derived from shipments, accruing by the loaning of either its capital or notes, it is not a bill of exchange but a sale of capital. In this way every dollar of the $61,138,288 of Canadian bank capital has been sold as fast as it has been paid in, in order to meet the continually pressing demand of the importers for gold in excess of all Canadian products or bills of exchange to pay for foreign goods. Strange to say Canadian bankers have always preferred discounting the notes of importers, which when there are no true bills of exchange must be met with the capital of the bank, to discounting or lending to farmers or manufacturers of the country, through whom true bills of exchange can alone be secured. They have pursued this course until all their capital is entirely represented by importer's debts for which their capital has been exchanged.

Sale of Interest Deposits.

Whenever a bank has sold all its bills of exchange and all its capital, as our Canadian banks have all done, every bill in excess thereof, payable in a foreign country, is not a sale of exchange but a sale of deposits on interest, until they are all sold. On the 28th of February, 1883 the banks reported themselves liable to depositors other than Government for $51,530,448, of which their cash returns show that there is not one dollar in their vaults. If we deduct $10,964,390 in the hands of agents not in Canada the balance or $40,366,058 represents the amount of these deposits sold to the importers as fast as received and it has been used to pay for over importations which are now represented by their customer's debts.

The banks that pay interest on deposits, as all our banks do, prove that they have sold their capital ; for there can be no necessity of borrowing on interest, so long as their capital is in their vaults, as it should be. There can be no question that it is unsound in principle for any bank to borrow money on interest, because in some way or another increased rates must be charged by banks doing business in this way, and increased rates inevitably lead to increased failures. One proof of this fact is that no nation increases in national wealth half as fast as the average rate of bank interest in Canada ; no matter whose statements to the contrary the census reports of each nation that furnishes them completely prove this truth. Hence higher rates, because of interest-bearing deposits, mean more bankruptcies, in which all the interest received by the banks for such deposits and all profits

from the sale of them are swallowed up in bad debts. This means so much bank capital consumed.

Sale of Casual Deposits.

Under the head of Government deposits we have seen that after deducting Government deposits and Dominion notes from the sum of those amounts required to fill the guarantee for their notes in circulation, there was only a balance of $3,289,821 to stand against the liability of the banks for casual deposits, leaving a deficiency of $6,284,632 and not a dollar in the banks to stand against it. Every dollar of that amount has been sold to the importers to pay for foreign goods.

Sale of Government Deposits.

On the 28th of February, 1883, the banks held $10,198,436 in Dominion notes and owed the Dominion and Provincial Governments $9,623,274 for deposits, showing a balance in favor of the banks of $575,152; that added to the specie on hand makes $7,284,500 to stand against the required guarantee of $13,617,963 for their notes in circulation, showing a deficiency of $6,333,436, which the banks can account for in either one of three ways; viz., that there is that deficiency in the guarantee funds, that the Government furnishes that sum to guarantee their notes in circulation, or that they have sold the amount to the importers and have not a dollar to pay it with. Practically, the Government by way of deposits continually furnishes all the specie upon which the banks carry on their business, which means that the taxpayers are taxed to furnish the money. This fact was made perfectly clear when Mr. Cartwright was Minister of Finance. The Government running short of funds he notified the banks that he must have the deposits; they were terror-stricken, and well they might be for it meant absolute failure to them all. They all united, and with both the *Mail* and *Globe* to assist them induced Mr. Cartwright to hasten over to Britain and borrow the amount required. The taxpayers still pay interest on this loan while the banks reap all the profit.

Summary of Banking and Exchange.

We thus perceive that the banks in place of confining themselves to banking and lending their capital and deposits on interest, and the selling of legitimate exchange which accrues thereby, have sold as exchange all their capital to the importers and all their deposits on interest. They owe to Government and casual cash depositors $19,147,727 against which they have in Dominion notes and cash only $16,907,784, showing a deficit of $2,289,943 and leaving nothing with which to meet their interest deposits and notes in circulation, amounting to $85,575,544. If the merchants had not imported more than we have exported there would not have

been a drain of one dollar of the paid up capital of the banks. Every dollar of it would have been in them now, whereas there is not one cent of it in their vaults in gold, as all of it should be. There would have been no necessity to pay interest on deposits and with the exception of the business deposits every dollar of them would be in the banks in gold. If our exports had been in excess of our imports, as they should have been, all such excess of shipments would have been a net gold reserve in the banks. Thus, as once stated by Sir John A. Macdonald, the importers have been the caterpillars on our industrial tree and they have devoured every leaf (or dollar, all the bank capital and deposits) and put us under interest for about $500,000,000 of over-importations, and that interest is now the cankerworm that is rapidly leeching out of the taxpayers the struggling life of this tree. Notwithstanding the ruinous nature of the work of supplying the importers with the capital and deposits of the banks in exchange for debts due or coming due to them, it has been the line of business that the bankers have most industriously cultivated. In their financial blundering they have continually looked upon and glorified this system of doing business as the most enlightened possible, and yet a more deceptive and bottomless one could scarcely be conceived of, either as it relates to the home or foreign interests of the people or to the stockholders, who in the aggregate have already lost in bad debts fully $20,000,000, or one-fourth of all the capital hitherto invested in Canadian banks.

Bank Gambling in Futures.

When the banks sell bills to the importers in excess of the true bills of exchange in hand, that is those derived from exports or from foreign investments of gold made in the country, it is practically gambling in futures. In place of the sale of goods in hand—which is true exchange and gold in excess of their capital and deposits—it is a sale of futures, a sale of what they hope to get, but which as yet has never come. The deficiency has been met by drawing on capital and net deposits on interest, together amounting to no less than $101,703,346, and if their note guarantee is maintained a further sum of $6,384,632 of the casual deposits. True, they have the notes, that is debts of the importers or the shadow of the substance in hand, but they are paying interest on about one-half of that shadow to the depositors and can never lay hands on the substance again until our exports and foreign investments in the country give sufficient surplus to pay for all we import and fully $20,000,000 of annual interest to Britain. It is by such surplus only, whether little or much, that the banks can restore any of their capital and deposits which they have continually been in such haste to sell to the importers, in place of holding on to the gold basis on which all their business prosperity depends.

Chartered Bank Currency.

A safe and valuable currency is as essential to the industrial life and prosperity of a nation as blood is to the animal system. Each in their relation being necessary to float to all parts of the animal or nation the elements for its nourishment. Ignorant of the true principles for issuing the necessary currency, Canada, copying after some other countries, adopted the system of permitting chartered banks to issue a currency at the rate of three dollars of currency for one of capital held in their vaults, which, on the renewal of their charters, was altered to sixty per cent. more currency than the security thus held.

When instituted the banks at once commenced to issue their notes to manufacturers and others to pay their debts or to speculate with and for the purchase of produce. When the produce was exported the borrower paid for his loans with the bills of exchange drawn against the shipments ; the bankers thereby securing sixty per cent. more profit on his capital than capitalists not in the ring could. These bills of exchange were sold by the bankers, at a profit, to the importers, who paid for them in the notes of the banks they took in payment for their goods. This circle of business was the one contemplated in the bank charters. But, as the merchants over-imported and the speculators could not pay up, the bills of exchange drawn against shipments were insufficient to pay for the goods imported, and the merchants continually presented more bank notes for redemption than the sum covered by the forty per cent. guarantee that the banks were to hold in gold, *i.e.*, in capital. When the capital was thus all eaten away the notes were redeemed by deposits on interest, until, as we have seen, the importers have leeched out of the banks every available dollar, and sent it all to foreign countries for foreign goods, that should have been made in the country, leaving the banks with nothing but customers' debts for all their capital and net interest-bearing deposits. They possess the shadow and foreign people the substance.

Under this system the banks have always been able in what has been called good times, to lend out their notes faster than the importers presented them for payment ; these extra issues have been called inflations. In place of being the result of actually good times they were as a matter of fact ruinous borrowing times, when we were rapidly running into debt to foreign countries for borrowed money for public works. This kept up a supply of exchange for the importers without pressing the bankers for redemption of their notes, but just as soon as there was a slack in borrowing the importers began to press the banks for the payment of their currency, compelling them to curtail their discounts, which at once began to crush business men. The importers drained the country of all the money they could lay their hands on and, as proved by the bank returns, prevented

other business men from collecting to redeem their notes under discount at the banks. Failures commenced, one failure often causing several others until all the profit made during the inflations, and more, has been lost in bad debts Ample proof of this fact is seen in the $20,000,000 of bank capital already sunk in bad debts, but much more in the books of business men all over the country, importers' as well as others.

If there had been no over-importations the banks would not have been drained of a dollar of their capital or deposits, and no appreciable depression nor financial crisis would ever have occurred. The seed, or borrowed money, is now being sown for another crisis.

The primal source, however, is in the false system of currency through which these inflations, depressions, bankruptcies and ruin so repeatedly occur. The points brought out are that if there were no more goods imported than we exported products to pay for them, the present bank charter system of lending currency in place of money would work safely for the banks but unjustly for the people. But, as it has been, the adoption of this false system has made it possible for the merchants to over import, and force the banks to provide gold to the limit of their capital and deposits to pay for the excess. The result is that their capital is continually being consumed, that is, more or less of their dividends are annually paid out of capital. Somewhere about $20,000,000 of bank capital already lost and all the deposits lost with it are the indisputable witnesses of this statement.

Bank Debt Currency.

The difference between a chartered bank currency and a bank debt currency is, that the one is issued in accordance with the principle of currency clearly intended in their charters, and the other is issued in violation of it. According to their charters, or principles involved in them, forty per cent. of their capital should be in the vaults in gold and Dominion notes, and this should be the net amount over and above all deposits for which the banks are liable in gold; then there could not be a loss of more than sixty per cent. by noteholders and that sixty per cent. is supposed to be secured by the double liability of the stockholders.

That the working of this principle was prevented by over-importations was not the fault of the bankers but of the importers, and yet the power of the importers to ruin and cripple so many of them would not have had existence if their charters had been based upon true principles. Under the present bank debt currency the manufacturer, farmer or producer who now borrows bank notes to pay his workmen, pays them with bank debts not secured by capital in the vaults. The workers have earned the money and take the notes in payment; they get no interest on what they have earned, but the banks, which do not

produce, get interest on the workers' earnings. To be equitable it is the workers who should be paid interest, for to accommodate the banks they accepted their notes for pay. The corporation notes which the city of Hamilton issued some years ago to pay its workmen, all drew interest. They did the work and advanced the labor and the tax-payers gave them interest on their advances, the city taking its notes in payment of taxes. The Government notes issued by Sir Francis Hincks the first time he was Minister of Finance to carry on the work on the Welland Canal, were, if memory serves, interest-bearing notes, if not directly they were indirectly to the people, for they saved interest on the sum issued. But the banks became influential enough with the Government to get it to prohibit Hamilton and other cities from issuing corporation notes, so that they might reap all the profits from the issue of the currency of the country. Yet that city currency was a truer and a safer currency than the bank currency, for the profit went to those who earned or held it and the security was better, whereas all the profit on issuing bank debt currency goes to those who have not worked for a cent of it.

The amount of the bank debt currency in circulation, February 28th, 1883, was $34,044,909 which is supposed to be issued upon the security of the paid up capital and double liability guarantee. A very large portion of the stockholders have no means except their stock—their guarantee is practically a myth. We have above seen that so far as the gold capital has been paid in it has been sold to the importers in advance, being forestalled by using the deposits, the banks only possessing the shadow of their capital and deposits on interest. It is generally supposed that the banks advance money to those customers to whom they furnish their notes, but this is a great mistake, for it is parties who accept the notes of the banks who make the advances to the banks, and the customers of the banks who distribute for them are but their servants to collect these advances from the producers, paying the banks seven per cent. for the privilege—and this is called our enlightened age. It is also a fact that the seven per cent. is eventually paid by the producers, for it must come out of earnings, and they are the only ones who earn.

Two Kinds of Bank Capital.

We have now before us two kinds of bank capital. The first is the $61,137,288 paid in by the stockholders, of which the directors or their firms have drawn out $8,571,353, leaving only $52,555,935 net capital, against which there are 51,530,448 of public deposits on interest and $4,484,264 of Government deposits on interest, making a total of $55,914,712, and showing that the borrowed money on which they are paying interest is $4,384,264 in excess of the net capital, besides all deposits not on interest.

The second kind of bank capital is the $34,044,909 of producers' or workers' capital, indirectly borrowed of the people by the banks, and on which the banks draw from those who furnish it nearly $2,500,000 of annual interest, giving no equivalent in return. The Government through authorizing the banks to issue currency indirectly compels the people to furnish this kind of capital to the bank, and also indirectly forces them to pay the banks interest on every dollar of their earnings thus loaned to the banks.

If the Government had issued that amount of legal tender currency for the building of public works, the people would own the work, the currency and the annual profit accruing from them, whereas the banks now practically own all of the $34,044,909 of work done by the people, for they are drawing all the interest or profit and have not earned or contributed a dollar of it ; consequently all bank charters authorizing the issue ot currency are legislative frauds.

The outcome of this exhibit is that through the issue of the currency actually chartered, the stockholders' bank capital has been practically swallowed up in interest-bearing deposits, which have been sold to the importers. Thus no issue of chartered currency is possible—it has become obsolete and has been superseded by a bank debt currency, the capital for the issue of which is actually furnished by the people who get no return from their investment, it having been made by the Government a perquisite of the banks. The effect of this has been that the interest deposits have eaten up the profits on the bank capital. The interest paid by the producers on the capital they furnish the banks leads to bad debts which devour the assets of the banks—a bottomless financial abyss in which the drones eat up the workers and both become impoverished together, as amply proved by Canada's home and foreign debts, which are fully as much as her assessable wealth.

Our Bank Currency not a Value Currency.

The worshippers of our present bank system claim that for two reasons it is a value currency, these are that it has accrued from bank capital earned and that it is redeemable in gold at par. The reader has seen how blind these worshippers of the golden idol are, that there is not a dollar of bank capital in gold behind their currency, nor a dollar of bank earnings, and that in place of being redeemable in gold at par the indirect premium for exchange, through high rates of interest and bad debts accruing from their false system of currrency, continually ranges from ten to thirty per cent., graduating according as our over-importations are more or less met by loans from foreign countries. Thus our bank currency is not and never has been a value currency.

Gold and Silver Currency.

Gold and silver currency is worshipped by some as a standard of value, but, strange as it may seem to all such worshippers, it never was and never can be. If it is a standard of value why does the value of the earnings of people in different countries so materially differ when rated in gold? The value of gold in each nation is regulated by its weight and fineness, without any regard being paid to the currency value placed upon it by any other nation. Gold and silver are simply products of the earth and their value is continually more or less affected by the supply and demand, just as the supply of wheat, meat or potatoes affects the prices current for them. If the leading nations should all at once demonetize these metals, as they sooner or later will, the vast amount that would be thrown upon the market would depreciate its current value from one-half two two-thirds.

The amount of gold currency held in 1881 by the principal countries of Europe and America was reported as $2,914,463,282 and the production in that year as $208,432,617; all the labor expended for that currency was practically thrown into the fire. In 1881 there was in the United States $563,631,455, or enough to pay off about one-fourth of their national debt, and in fifteen years it would save enough interest to pay off another fourth.

Gold is not and never can be a standard of value. The same weight in gold will buy from two to ten times as much in one country as in another, which proves that the idea of a universal currency that is equitable to all people is absurd. Every nation requires a national currency that will not be current in other countries, for currency is the commercial blood of a nation and should no more be used in another nation than the blood of one animal should be used by another or the juice of one tree by another. All the financial transactions of one nation with any other nation should be with an international currency, that is, bills of exchange drawn against shipments, which will always be in proportion as the people are able to pay to other countries for what they may purchase. Like the blood in the animal system the volume of national currency should be in proportion to the population, increasing as it increases. It is because our bank currency has been and still is redeemable in gold, which is a foreign currency, that it has increased as we borrowed gold for public works and decreased as we over imported. These changes, which have been called inflations and contractions of the banks and of the currency, have been the cause of all our financial crises. These inflations and contractions had their origin in a foreign or specie currency, which should not be used for a national currency but can be safely used for payments to foreign nations that are so benighted as to worship this golden idol. Writing on this subject some twenty years ago *Blackwood's Mag-*

azine said that the time would come when gold as currency would be looked upon as a relic of barbarism.

British Currency.

A late estimate gives the present amount of British gold currency as $275,000,000, and the cost of coinage and depreciation by wear in fifteen years as $35,000 on every $1,000,000. This $1,000,000 of gold had to be purchased by the labors of the people before it was coined, and the interest at three per cent. compounding for fifteen years added to the cost and depreciation makes the cost of $1,000,000 during that period $1,557,000. The cost of paper and printing for that amount of paper currency would not be over $57,000, showing that $1,000,000 gold currency costs the people $1,500,000 more every fifteen years than the same amount in paper currency, and the reported $275,000,000 of present British gold currency has in fifteen years cost the people $412,500,000 more than a paper one would have cost.

During a period of nearly twenty-two years, from 1797 to 1819, Britain's statesmen utterly discarded gold as a national currency, only using gold for carrying on wars with other countries—that was as an international currency. Yet Britain was all the time carrying on her industries at home with a paper currency and all her commerce with other nations with her products; the shipments of her products always being not only ample to pay for all the imports, but leaving a balance in her favor in gold to help to carry on her wars. If nothing else, this proves how little some rulers learn from history; they will swallow as truth the clap trap of some designing speculator in place of securing a correct understanding of the question. This was done when Britain returned to a gold currency, by which Lord Overstone, the chief schemer in the matter, cleared about $30,000,000. This gold currency, has, up to the present time, cost Great Britain at least $800,000,000, or about one-fourth the sum of Britain's present national debt.

United States' Currency.

The present paper currency of the United States is of two kinds: first, the Greenbacks, issued for the prosecution of the war—practically for the destruction of national wealth; second, that issued to the National Banks.

If the total amount of Greenbacks issued had been paid out for the constructiou of national works—for railroads, canals, drainage, etc.—the accession of prosperity and national wealth would have astonished all nations. For a time the Greenbacks were at a discount; first, because they were not issued for the development of national wealth; second, from the fear that the North would be unable to subdue the South; and third, because of over-importations, which caused a premium on gold and affected the percent-

age as much as the other two causes. But after the close of the war the discount on them was more properly a premium on gold to meet foreign payments.

The Act of Congress making the Greenbacks redeemable in gold, did not in the least affect the par value, it being the natural result of the diminished imports and the decreased demand for gold to pay for them, coupled with the large amounts borrowed in Europe—about $6,000,000,000, of which over $1-500,000,000 was borrowed in 1871—whereby bonds, stocks and mortgages to a large extent took the place of gold. It has been through these means that the stock of gold in the United States Treasury has continually increased, until it has now reached over four hundred million, which is eating itself up in interest. For speculative reasons Congress takes no measures for the disposal of this sum in the payment of the national debt, and relief of the people from the interest on it.

The National Bank currency of the United States is all issued and guaranteed by the Government. Every National Bank has to deposit $110,000 of United States bonds for every $100,000 of said notes, to secure the holder against loss by the failure of the banks.

This is the best bank currency in use, for the holder is protected. But even in it there is a fraud upon the people—the banks get interest on their bonds from the government, the interest coming out of the taxes of the people, and they also get interest out of the people for the use of it. As with the Canadian bank currency the people earn the money, and in place of the banks selling their bonds and paying cash, they issue their currency and get interest on both, and no matter who borrow it from the banks, it eventually comes out of the producers.

There is about $350,000,000 of this National bank currency in circulation, which at an average of seven per cent., or $24,500,000 annually, has in the past twenty years of their organization amounted to nearly $500,000,000. It is true they have had to pay taxes, but they would have had taxes to pay if they had only loaned the sums covered by the bonds Through their charters they have for over fifteen years had an average of about $500,000,000 individual deposits, a large proportion of which they could loan on interest. If in place of issuing to the banks the Government had issued the amount either for public works or to pay off interest-bearing debts, that $500,000,000 and interest on it as well as the $400,000,000 now held in specie in the Treasury, or a total of $900,000,000, would have all been saved to the people.

Dominion Note Currency.

There is about $15,000,000 of Dominion note currency now issued, but on February 28th, 1883, there was $10,198,436 locked up in the banks, leaving

only some $5,000,000 in actual circulation. Against the total amount issued there is about $3,000,000 in gold held by Government as collateral security for the payment of the notes, which gold, in the light of a true currency, is all the time eating itself up in interest. The gold is borrowed from British money lenders on interest, to be security for the repayment of the Dominion notes issued for the people, who are taxed to pay the interest on the money borrowed

The principle is the same as if a farmer (or any one else) were to give his note, bearing interest, in exchange for a speculator's note, not bearing interest, as the gold does not. On the strength of the speculator's note the farmer issues notes to several times the amount of its value and uses them to pay his sons who work for him. When his crops are sold he meets the notes given to his sons and then pays interest to the speculator, from whom he has received nothing.

The Government repeats this process year after year and believes it to be the height of financial wisdom in place of deep financial ignorance.

Sir Francis Hincks, when Minister of Finance, devised this original method of making the people pay interest to foreign countries. In one of his last financial speeches he lauded himself as its originator, stating that by this system he saved the people $400,000 a year. But he could not see that with a true national currency he could, on the amount issued, have saved $1,200,000 annually, and much more now with the present larger issue.

It has been through just such financial ignorance that Canada has since Confederation paid over $100,000,000 in interest, every dollar of which would have been saved by a true national currency.

A True National Currency.

There have been many national paper currencies, but as yet there is no record of one being issued solely for the construction of public works—as the writer first proposed it in January, 1864, in the *Canadian Quarterly Review*, for the construction of the Intercolonial Railway and other public works. By such a currency the people would own both works and currency, would reap continual direct or indirect profit from the works and save the annual drain of seven per cent. for the use of the present gold and bank currency. The national paper currencies hitherto issued were either for war or speculative purposes, bringing no return of national wealth, as a true national currency would have done, for every dollar of a true currency would represent national earnings invested in national works.

A paper currency should be issued for the construction of canals, railroads, colonization roads and for drainage purposes, so that production would be increased and carriage cheapened. Every dollar issued would then show a dollar increase of national wealth,

yielding annual profit to all the people, whereas every dollar of currency issued by the banks shows a dollar earned by the people but, on which they continually pay seven per cent. interest to the banks, and from which they receive no profits, but repeatedly, through the failure of the banks, lose more or less of their notes.

The people would not receive a currency thus issued any faster than they earned it, and as there is no inflation from earnings, there would be no more inflations or depressions, but steady, permanent prosperity. Its value would be more permanent than that of any gold or silver currency, therefore more valuable to lay up for a rainy day, for old age or for children. If every man had a thousand dollars it would not effect its value for the purchase of supplies any more than a thousand dollars per family in gold would. The only parties that it would effect would be the usurers, who live on the earnings of others, but even they would have advantages that would to a great extent counterbalance their disadvantages.

When the United States had $120 per family of currency in circulation there was no complaint of too much money. In that proportion to population we should now have $120,000,000 in place of the present $50,000,000. How little we have to fear from inflation from earnings, one of the great objections to such a currency, may be seen by the fact that it would take 20,000 men working at an average of $1.50 a day nearly fourteen years to earn the amount we could now use to advantage, and by that time our increase of population would require a very much larger sum. Let those to whom this guage for the amount to be issued is not apparent take another example: we cannot have too much money in circulation until the average rate of interest in Canada comes down to three per cent., the average in France and Britain, and we can never compete with the manufacturers of other countries except with money at equally low rates of interest. The present difference between our rates and the rates in France and Britain is indirect protection to them, which in the competition is a handsome profit of itself.

If we now had $100,000,000 of such currency the annual saving to the people over the present system would be $7,000,000 annually, for, as before seen we now pay the banks alone about $2,500,000 a year for some $34,000,000 which they furnish. That $7,000,000 would in fifteen years build and stock the Pacific Railway from end to end; it would have saved us all the land given, and the road would have belonged to the people, while we would also have had $105,000,000 of currency. Under the present system we gave 713 miles of railroad nearly completed, at a computed cost of $35,000,000; $25,000,000 in cash, and 25,000,000 acres of land, which at the low estimate of two dollars per acre is $50,000,000, making a total of $110,000,000 for what the Government en-

gineers estimated would not cost over $88,000,000 from Port Moody, on the Pacific, to Callander Station, near Lake Nipissing. Yet, men who are called statesmen are applauded for adopting this giving and impoverishing system in place of an earning and enriching one.

Advantage of National Currency to the Banks.

The only object the banks can have in desiring to issue their notes is a wish (as permitted in the bank charters) to enrich the stockholders by trying to draw interest on $2,500,000 of their debts for every $1,000,000 of earned and paid-up capital. If the stockholders can be shown that they would receive larger dividends and do a much safer business by using a national currency than they ever have by their present deceptive system of trying to get rich faster with their debts than they could by their earnings, they will doubtless lend their assistance in securing its adoption.

We have seen that under the present system the importers are able to force the banks to sell them all their capital and deposits on interest as fast as paid in, as well as a portion of the casual deposits, giving for pay debts coming due—giving the shadow of their assets for the gold or substance of the banks. They not only compel the banks to do business with borrowed capital but also to scatter their capital and deposits on interest abroad in foreign lands, permanently beyond their reach.

With a national currency it would simply be a lending, and not a sale of capital and deposits not on interest. As before stated, the banks that pay interest on deposits thereby prove that they have sold their capital and are trying to get rich on the interest of what they owe, which, however plausible in theory, has always proved disastrous in practice. The $20,000,000 already thus consumed should be ample witness of this statement.

With a national currency there would be as large if not a much larger amount of deposits than there is now, for they would all be in the country and within reach in place of the larger portion, that on interest, being scattered abroad in other lands

The public, Dominion and Provincial, deposits on interest, February 28th, 1883, were $58,072,934, which at an average interest of say four per cent. annually cost the banks $2,322,917. The bank notes in circulation on that date amounted to $34,044,909, from which, in order to show the net advantage to the banks from the issue of their notes, we deduct the forty per cent. guarantee fund of $13,717,963. This leaves a balance of $20,326,946 of notes drawing interest at seven per cent., or $1,442,886 a year, which deducted from the interest paid for deposits leaves a balance of $880,031 in favor of using the national currency. To this should be added at least one per cent. to cover the losses which on an average annually

accrue on the deposits on interest thus sold to the importers, amounting to $580,729. This added to the above balance makes $1,460,760 annually in favor of a national currency, or in other words a dead loss of that amount by the present false system of trying to get rich by lending debts and selling capital and deposits in place of out of earnings.

With this data it requires little perception in stockholders to see that the advocates of a national currency are the best friends of the banks, and the directors and Government very blind to their interests. One reason of this blindness is that a large number of the directors are importers, as proved by the $8,571,353 of loans to them, being about one-seventh of the whole paid up capital, which is altogether out of proportion to the capital they have invested. But, they wish this false system maintained in order that they may be able, as heretofore, to fall back upon the capital and deposits of the banks to pay for their over-importations. Not that the importers think they will injure the banks thereby, far from it, but because they have never thoroughly investigated their own nor the banks' real position, for in the end this false system is as disastrous to the importers as to the banks and the country.

Many importers, if not all, suppose that when bank notes are redeemable in gold that there is no difficulty in getting the gold. Apparently they are mere babes in the woods in the matter; for they should all know that the ordinance to make them payable in gold does not add one dollar to our exports, the only source we have of getting gold—except what little may be brought by settlers. The annual deficiencies have hitherto been made up by bank capital, bank deposits, mortgages upon real estate, and sums borrowed for public works, until we are now fully $500,000,000 in debt for over-importations—fully $125,000,000 to the banks, by way of capital and deposits, and, as seen by the late British statistics, $350,000,000 to Great Britain, with no possible way of redeeming the debt until our exports exceed our imports.

The following quotation from *The Journal of Commerce* of Feb. 20th, 1880, shows that we are not alone in holding that bank notes held by the people represent advances by the people to the banks: "The bank which issues notes simply borrows so much from the persons holding them."

Is it not time that a national currency should be adopted that would deliver, not only the banks from running their business with borrowed money in place of capital, but also the importers and manufacturers, and all the people from the high rates of interest and the debt with which the present system has cursed us?

Value of Bank Stocks.

The Bank returns of Feb. 28th, 1883, show that on that date the Canadian banks had $236,843,635 of as-

sets and $145,603,492 of liabilities, to which we must add $61,137,288 of bank capital, making in all $206,740,780 to be deducted from the assets; showing a margin of $20,102,855 in excess of liabilities. But those assets have got to be collected and allowance made for bad debts. To get at the actual value of bank stocks we must deduct for bad debts, for law and other expenses in collecting, which no business man of experience, either in winding up banks or other large business, will place at less then fifteen per cent., or in round numbers at $33,000,000, from which the dededuction of the $20,102,855 would leave a deficiency of about $13,000,000 which we must deduct from the $61,000,000 of paid-up capital, leaving its net value about $48,000,000, or about twenty per cent. less than its face value, or eighty cents on the dollar. And if we estimate the cost of collection and bad debts at only ten per cent, which is not a safe estimate, there would still be a deficiency of $2,781,508, showing the bank stocks to be not worth more than about ninety-five cents on the dollar. No person should, on the average, pay over eighty cents on the dollar for bank stocks; all over it is a purchase of futures—a speculation or gambling in probabilities, which it is safe to say will never realize a dollar.

The holder will naturally ask, What has become of the other twenty per cent.? The answer is plain. It has been eaten up in dividends. The business has not been carried on by lending your capital, but in selling it to importers to pay for goods which the people have never been able to pay for out of earnings, which has led to an annual and periodical accrual of bad debts, which left the net profits so small that the directors, thinking some of the bad debts would be paid, took out of accruing deposits for dividends, which in the end comes out of the capital. The amount of bank capital and deposits thus consumed in previous years in banks, besides that now returned as paid up, has been somewhere about $20,000,000; and the difference between the face value and the cash value of the stocks in the bank returns for February is seen to be about $13,000,000, which shows that fully $30,000,000 or more of bank capital has been eaten up in dividends; and appearances indicate that the stocks of the banks that pay the largest dividends are worth the least.

Bank Dividends from Capital.

As evidence that bank dividends are sometimes more or less paid out of capital—the Annual Report of the Bank of Montreal, of June, 1864, shows that the $240,000 of dividend was from profits, but that $100,000 of the dividend the previous year was out of assets; but they hoped by another year to repay the $100,000.

According to this report, the Government account which the Finance Minister took from the Bank of Upper Canada and gave to the Bank of Montreal was

"very large and profitable." In fact, it was the $150,-000 made by that account during the year that saved the bank from taking that sum out of assets in 1864 to make up the dividend. The report also states that with that profitable account the maintainence of the eight per cent. dividend would depend more upon freedom from loss than from any probable increase of profits. A member of the Quebec Board of Trade, referring to the report in the *Quebec News*, of June, 1864, says: "Who can divine the amount of bad debts included in the $12,006,408 of notes, bills and other debts held by the bank." Which, if rightly deducted from the profits, would probably have left no dividend from earnings.

The same correspondent, as a stockholder of the Quebec Bank, referring to its report, pointed out that the directors had "applied 6⅝ of the present paid-up capital to the extinction of certain bad debts, and then tell us that there are further bad debts, but hope the unappropriated funds are sufficient to provide for them." He also said, that for want of space he was unable to refer to the reports of the City Bank and Bank of Ontario, which he appeared to think could show no better record. And those exhibits were seven years after the crisis of 1857, and in a period of fair prosperity, accruing from the remarkable prices the Americans paid us during that period of their war.

Let us come down fifteen years later, to the bank returns for April 30th, 1879. A carefully prepared table on page 61 of the *Dominion Watchman* for October of that year, shows the financial strength of the Bank of Montreal, as compared with the four banks that had then failed. "It can be seen that the Bank of Montreal was sustained by its $3,573,875 of Government deposits. That the Mechanics' Bank, with a *pro rata* share of Government deposits in proportion to its capital, would have had $120,000 of them in place of only $2,026. The Exchange Bank, $287,821 in place of $35,582. The Bank Ville Marie, $273,000 in place of $71,912; and the Consolidated, $1,080,000 in place of only $312,904. With a *pro rata* share it is quite probable not one would have failed except the Mechanics' Bank, which, as one of Mr. Brydges' schemes for getting rich on other people's money, appears to have depended upon the deposits from the Intercolonial Railway. Under his management the receipts were deposited with the Merchants' Bank, and it in turn largely supplied the funds to run the Mechanics' Bank. Mr. Brydges' removal put an end to the happy arrangement and the bank failed."

The table in the *Watchman* shows that if when those banks failed the Government deposits had been taken away from the Bank of Montreal its deficiency in actual cash assets to pay cash liabilities would have been $5,582,125, or nearly one-half of its capital. The Exchange Bank would have had a deficiency of not one-third of its capital. The Bank Ville Marie,

a deficiency of about four-ninths; and the Consolidated not one-fourth of its capital. This is ample proof, as said by one of the officials employed to wind up the Consolidated Bank, that if all the banks had been brought into liquidation they would all have shown corresponding bankruptcy. It was at that time reported that Sir Francis Hincks said the depreciation in bank capital was $25,000,000. That is confirmed by the stock returns, which for the thirteen months alone, from Dec. 1st, 1879, show the depreciation in the Bank of Montreal was 22 per cent., or $2,640,000

At that time the total bank capital was, in round numbers, $58,000,000. A depreciation of $25,000,000 would leave $33,000,000. Through the adoption of the National Policy a large amount of bad debts were vitalized. If they are placed at $12,000,000 there is still a deficiency of $13,000,000, which is the amount we have previously pointed out should be deducted from the present paid-up capital to show its real face value. In the Bank of Montreal report of April, 1883, of the amount of dividends payable, it is claimed that they have a Rest or reserve fund of about $5,750,000; a sum nearly one-half as large as the paid-up capital of the bank. Yet they feared to accord more than the usual dividends. Is it not evident that the president and directors look upon a very large amount of that Rest as a sum of bad debts, which is not only at *rest* in not yielding any profit, but practically dead?

Since the above was written it is reported they have added a bonus, the amount of which is not to hand. But a two or three per cent. bonus will have no appreciable effect on the aggregate financial position

The total assets of the bank Feb. 28th, 1883, were $42,951,575. Thirteen-and-a-half per cent. discount on that sum for bad debts and cost of collection would be $5,783,434, or only about $33,000 more than all that "Rest." Thus this statement of the Bank of Montreal collaterally proves that fifteen per cent. discount is none too much for collection and losses, and that eighty cents on the dollar is all the stock is worth for safe investment. Another crisis will materially reduce its value; and one is quite possible when the present immense expenditure for the Pacific Railway and canals comes to an end. The only thing that can surely deliver the country and the stockholders is a true national currency.

To yet more clearly show the unsatisfactory nature of our banking system it is only necessary to go back to the last financial crisis when the Bank of Montreal loaned the Exchange Bank $300,000, not its own money but Government deposits, and offered, with the Bank of British North America, to loan it $400,000 more if the directors would close up their bank.

Turning to the Bank returns of April 30th, 1879, they show that the Bank of Montreal had not then a dollar of specie, except Government deposits. That exclusive of loans and discounts it was short $5,582,-

125 in cash assets to pay cash liabilities; and that with the Government deposits it was $2,008,350 short in cash assets to pay such cash liabilities.

If the Exchange Bank had held a *pro rata* share of the Government deposits with the Bank of Montreal it would have had $288,821 in place of only $35,582. At the time of its failure the Fxchange Bank was, *pro rata* per capital, $131,001 richer in said cash assets to pay cash liabilities than the Bank of Montreal was,

Thus it is amply proved that aside from Government funds the Exchange Bank was better able to lend to the Bank of Montreal than the Bank of Montreal to the Exchange Bank; and that the Bank of Montreal was with Government funds endeavoring to crush the Exchange Bank, as it also tried in the case of the Merchants' Bank in 1864, and still later the Bank of Yarmouth, N. S., but failed each time.

The fraud of this system of banking can also be further seen in the position of the Bank of Montreal Feb. 28th, 1883. The Bank then had, of all kinds, $3,855,263 of Government deposits, and $5,486,501 of its notes in circulation; a total of $9,341,764. That sum is all furnished by the people, and not a dollar by the stockholders. The bank was paying interest on $1,500,000 of those deposits. If we cast interest on the balance, or $7,841,764, at seven per cent., it amounts to $548,923. Their eight per cent. dividend on $12,000,000 of capital is $980,000. Now deduct that interest from the dividend and it will show that without the indirect capital furnished to the bank by the people through those deposits, and through the notes of said bank, the dividend would only have amounted to $411,077, or about three-and-a-half per cent. on the capital. Thus the largest half of the dividends of the Bank of Montreal comes out of the indirect capital furnished by the people and not through the paid-up capital of the stockholders. Can that be called healthy?

The Object in View.

The object of all these explanations is to prove, not only to bank stockholders, bankers and importers, but to every class, what a fraud upon the country, that is upon every true national interest, our present system of currency is. By simply issuing a true national currency, as described under that head, all the loss in bank capital, and nine-tenths of the business losses, bankruptcies and ruin with which the country has been so repeatedly flooded, would be avoided.

These explanations, it is hoped, will prevent innocent parties from paying to speculators more for bank stocks than they are worth. The information will be no loss to *bona fide* holders; they cannot affect the dividends of the banks paid out of earnings. If they get less dividends they will have more capital. By adopting the national currency their capital would soon be brought up to be worth its face value.

Rates of Interest.

If any one will divide the increase of national assessable wealth in the United States in each census period from 1789 to 1860 by the number of families they will find that through each census period the net annual increase per family of five was about three per cent. But if the slaves and the unimproved lands and the sums brought in by emigrants are deducted, the annual increase will be found to be only two per cent., or ten dollars a year; and that during that time the cost of all their Governments was $24 a year per family. Therefore, that when the cost of Government became more than $34 a year annually, as it has been ever since the war, all increase in assessable wealth during that time has been covered by bonds, mortgages or other securities. As in Canada the cost of all our Governments has for several years averaged $50 per family, all the increase in assessable wealth has been covered with bonds, mortgages, &c., &c.

The facts prove that the bank rates of interest are from two to three times as much as on the average can be earned by the borrower, and show why it is bad debts accrue. The business men are the principal borrowers, and the first to be eaten out by high rates. The banks generally lose more or less by each failure, which, as seen, eventually eats up profits and more or less of the capital, as the $20,000,000 already gone and the $13,000,000 of present depreciation amply show.

In Britain, where there are low rates of interest, much higher dividends are annually paid; for the business men have a margin of profit; whereas there is no margin in Canada, when averaged to the whole people. If one makes by the borrowing, another loses, and it in the end comes largely out of the banks, as it hitherto has, and the bank capital becomes extinct. Abundance of true national currency would deliver the people from the high rates and the banks from bankruptcy.

The following table indicates the rapidity with which different rates of interest devour the earnings and devour business men.

COMPOUND INTEREST.

One dollar at three per cent. interest, collected annually and added to the principal for 100 years, will amount to		.. ..	$19.25
At 6 per cent. for 100 years		.. .. ..	340.00
8	"	"	2,503.00
10	"	"	12,809.00
12	"	"	84,075.00
18	"	"	15,145,007.00
24	"	"	2,251,790,403.00

The Bank of France.

The history of the Bank of France since 1845 furnishes invaluable information in regard to banking and currency.

In consequence of a drain of gold to pay for over-importations the Bank of France lost two-thirds of its specie between July 1st, 1846, and Jan. 14th, 1847. In its endeavor to tide over the continually increasing drain of gold to pay for over-importations it bought 15,000,000 francs in gold from Government, and 5,000,000 francs of the people. Then it borrowed 25,000,000 francs from England; and in January, 1847, it sold 50,000,000 francs of its securities to Russia, which only brought temporary relief, for the scarcity of money was so great that the failures in Paris alone in twelve months amounted to 68,477,803 francs. The Government then stepped in and made the bank notes legal tender, which they remained to the 6th of August, 1850.

From the time the notes were made legal tender the exports continually increased. The balance of trade soon became largely favorable to France, which brought back specie to the country and into the Bank of France; so that at the above date it notified the Government that it was prepared to pay specie in place of bills.

During the five following years the balance of trade was in favor of France, and resulted in an increase of 1,312,000,000 francs in gold in the bank.

The return to specie payments again led to over-importations and another crisis, but by an increase of the tariff in 1857, which led to increase in manufacturing and shipments, there was a return to prosperity.

Thus we have two facts before us: First—That a legal tender currency issued by a bank in sufficient quantities, and at a low enough rate of interest, saved a country from ruin. Second—That when it returned to specie payments ruin ere long came again; but, that by a proper revision of the tariff the tide of evil was turned to be one of prosperity. And finally, by the Government in 1870 making the bank notes legal tender again, continued prosperity remained to the people while subject to a dreadful war and an indemnity that was intended by Germany to crush France in the dust; but which, through Germany's financial ignorance, left Germany pecuniarily worse off than before she received the money. In the first six years after the war Germany over-imported an amount greater than all the war money she received from France, resulting in industrial stagnation to Germany and continued prosperity to France, for a large amount of those over-importations were from the latter country.

The lesson these facts teach is: That borrowed gold will not save from ruin a country that over-imports, but that a legal tender paper currency will.

In 1873, while the country was yet in deep distress from the war with Germany, the Bank of France, with only $30,000,000 of capital, had $747,000,000 of its notes in circulation, or $25 in bills for every dollar of capital.

The Canadian banks, up to the adoption of the

National Policy, could not with over $60,000,000 of capital secure an average circulation of over $20,000,000, or not over one dollar to three of capital. The enormous difference can be seen in perceiving that the Bank of France, with the same ratio of issue to capital as the Canadian banks, over many years would have only had a circulation of $10,000,000 in place of an actual circulation of $747,000,000.

It may be well to here repeat, that when France had the balance of trade in her favor she had no need of gold, her payments were made in goods; and that even a large portion of her war debt to Germany was paid in that way, which clearly shows that with a true national currency and no over-importations there is no necessity for gold; and that when a country does over-import the balance is not paid in gold, but by bonds and mortgages; hence that all the labor expended in procuring gold for a currency is lost. It is so much national industry thrown into the fire.

The last returns of the Bank of France in April, 1883, show that with $30,000,000 of capital it had £81,825,678 (or about $400,000,000) of specie in its vaults. On March 1st, 1883, the Canadian banks, with $61,138,288 of paid-up capital, had only $6,709,348 in specie; or, while the Bank of France had over $13 of specie for every dollar of capital the Canadian banks only had one dollar (and that borrowed) for every ten dollars of capital.

Let Stockholders Consider.

Those stockholders who cannot, with the information now given, clearly see that there is no solid bottom to our present system of banking, currency, and selling of capital and deposits for exchange, must be singularly deficient in their financial education.

The remedy is simple—it is the national currency herein suggested. It will preserve the capital of the banks. It will give them deposits without interest; and it would give them dividends out of profit in place of so much of it out of capital.

Cause of Each Canadian Financial Crisis.

We had a financial crisis in 1837-8, one in 1847-8, one in 1857-8 and one in 1876-7, and we would have had one in 1863-4 had it not been for the extraordinary prices the Americans paid us for our products during their war.

The British Government in building the Rideau Canal from Kingston to Ottawa, which, if memory serves, was completed in 1832, expended over $8,000,000. This influx of gold led our importers to so increase their purchases that it not only swallowed up all that sum, but all the receipts for all our exports, leaving us in debt to Britain for our over-importations, and without any money to pay for them. The result was that in the extreme scarcity of money many business men issued "fractional currency," or promises to

pay, which circulated as specie in the localities where issued.

It was the hard times thus caused by the importers that led to the Canadian Rebellion of 1837-8, for a prosperous people never rebel; political revolutionists have very little influence in good times. It is true there were grievances, but they were not of such serious importance as to justify so futile and so radical a remedy. It is quite possible that through peaceful perseverance all essential reforms would have been secured, and the country been saved from many serious evils arising from the rebellion. We are supported in this conclusion by its author, Wm. Lyon Mackenzie, who in his later years, as given in the history of his life, admitted that it was a mistake, "an error of the head,"—want of judgment.

While not of just the same description, the oppression we now bear through excessive cost of Government and unjustifiable monopolies is much greater than that borne by the people before the rebellion, yet there is no attempt to remove them through "confused noise nor with garments rolled in blood," for through the agency of the press the people are becoming enlightened, and are forming, as it were, companies and battalions which when united will make an army that cannot fail in bringing about desired reforms.

THE FINANCIAL CRISIS OF 1847-8.

The rebellion of 1837-8 led to the union of the Provinces of Ontario and Quebec in 1841. The Government then borrowed £1,500,000 sterling, or over $7,000,000, from Britain, for the construction of the St. Lawrence Canals and other public works. The borrowed money thus expended again led to easy times, as the expenditure of all borowed money within the country does for a time, but ultimately it must prove disastrous. As during the time preceding the former crisis the importers imported faster than all that was earned and borrowed, and when the borrowed money had all been used there was no money to pay for the excess of imports or balance of trade against us.

The attempt was then made to remove the oppressive burden which the importers thus placed upon our shoulders, by borrowing from the loan companies and building societies, to which the hard times then gave birth. But as the interest required was always several times more than could be made out of or saved from the use of the loans, nearly all who went aboard this moneylenders' ark, soon found themselves submerged, and their last state worse than the first. If they had turned all of their property over to their creditors they could not have been worse off, and their creditors would have been in a much better position.

To sum up, the crisis of 1847-8 was caused by the importers importing more than we exported.

THE FINANCIAL CRISIS OF 1857-8.

From the time of the crisis of 1847-8 until the commencement of the construction of the Great Western, Grand Trunk and Northern Railways there was great scarcity of money. The outlay on these roads with the very high prices, which, owing to the Crimean War, the farmers obtained from Europe for their wheat once more gave an abundant supply of money.

But, as in the two previous instances, the importers imported largely in excess of all exports and of all the money brought into the country by the construction of the railways. According to the Government returns during the nine years ending with 1858, the over-importations amounted to $79,356,537, and the annual interest on it brought it up to over $100,000,000, or an amount far in excess of all that was spent for railways during that period. The banks and the people were so completely drained of money that the banks found it impossible to furnish the necessary funds for the purchase of produce, unless it was shipped in time for them to get the returns before the importers could collect their notes and demand gold or exchange for them. Thus the importers not only caused the crisis of 1847-8, but they perpetuated it, crippling the banks and every home industry, benefitting producers and manufacturers in other countries while ruining our own.

As above stated there would undoubtedly have been another crisis in 1863-4 had it not been for the extraordinarily high prices paid for Canadian products by the Americans during their war, and even then for several years following money was very scarce.

THE FINANCIAL CRISIS OF 1876-7.

With the commencement of the Intercolonial, the Air Line of the Great Western, the Canada Southern and other railways, the new Welland Canal and other public works, a new flood of borrowed money was spread over the country, leading the importers to think, if we may judge by the excessive amount they imported, that they could scarcely import too many goods. The result was that in the six years ending with 1877, they over-imported to the amount of $186,553,658, which added to the previous indebtedness to Britain and what has accrued since, makes the present debt to Britain, according to the *Economist*, $350,000,000, besides which the importers have drained the banks of fully $125,000,000, of capital and deposits to pay for goods manufactured in other countries, which under wise legislation would have been made in Canada.

It has been the creed of the ignorant that financial crises were unavoidable, coming at regular periods. But the Government returns of imports and exports annually show just how rapidly the importers push us into successive financial disasters.

These facts show how unwise it is to send the importers to Parliament, for naturally they do not want

to help place any restrictions that will interfere with their importing, in reality with their ability to crush Canada and her industries. By this over-importing foreigners are supplied with work, food and clothes by the importers during each of our financial crises, while Canadians go tramping from town to town and city to city begging for work that they may procure food and shelter for themselves and families. The ruin and misery caused by over-importing is beyond description or computation.

Independent of the forced idleness of the people, the ruin of merchants and manufacturers and the periodical loss of all the savings of the people, there has been that semi-starvation and actual want and suffering that develops into sickness and disease and causes thousands to be brought to premature graves.

If it is not legislative ignorance it is legislaaive insanity to allow a few hundred importers to every few years ruin every industrial and material interest of the country, crush farmers, manufacturers, retail merchants and bankers, and through bad debts and the general depression more or less ruin the importers themselves.

These facts show that one of the great reforms pressing for adoption is one through which the sum of our imports will always be kept within the amount of our exports, and thus prevent over-importing. This reform is the adoption of a national currency paid out for public works, one that will always be redeemable in the labor and products of the country. The bills of exchange drawn against the shipment of any of such products would always pay for all that it should be annually necessary to purchase ; they would be a true and the only international currency that would not prevent international barter—the exchange of a load of fish for a load of sugar—and could be supplemented to the extent of the receipts in our favor through immigrants from other countries. With such a currency there could be no over-importing, no financial crises nor any of the evils arising from them.

Tne Importers Crushed the McKenzie Ministry.

For the six years ending with 1877 the importers run the country $186,543,658 in debt for foreign goods. This crushing debt added to the interest on what they had previously loaded us with, so drained the banks of their capital and deposits that they could not furnish currency to carry on the business of the country. The proof of this lies in the fact that the circulation was reduced from about $28,000,000 to less than $18,000,000, or about one-half their circulation in some months of 1882. A further proof is that when Mr. Cartwright, the then Dominion Minister of Finance, notified the banks that he wanted Government deposits to meet accruing obligations, both the *Mail* and *Globe*, always conflicting on other

questions, speedily uniting in the interest of the banks urged on Mr. Cartwright the fact that the withdrawal of these funds would be ruinous, and that he must borrow the required amount from England. The money borrowed from England was really to pay for over-importations and had the loan not been effected every bank would have failed, every bank stockholder haave been ruined and all business been completely paralyzed.

The continual multiplication of debts, losses and bankruptcies, with no prospect of relief, coupled with teachings of the *Dominion Watchman* and other protectionist journals and advocates, at last opened the eyes of many of Mr. McKenzie's free-trade followers to the real causes of our financial difficulties. But as Mr. McKenzie would listen to no suggestions for relief that conflicted with his free-trade ideas and allegiance to the Cobden Club, of which he is an honorary member, a large number of warm personal and party friends cut the cords that bound them in political affinity with him. He sternly refused to adopt any legislative measures that would curtail our imports or that would give work to Canadians in place of to foreigners and save all our monetary institutions from bankruptcy. His alienated followers became convinced that unless a change was made and protection adopted they would be submerged in the ever deepening waters of financial ruin caused by the importers.

Mr. McKenzie's alarmed friends held the balance of power between the two political parties, and it is well known that had he promised one-half of the remedial measures that Sir John Macdonald did, he would have had a majority of votes. He has therefore to thank the importers for bringing upon the country the financial disasters through which he was cast out of office.

Senator Plumb and National Currency.

The Hon. Mr. Plumb, in one of his first speeches in the Senate on money matters, said :

> "I have never been an advocate for a large issue of Government paper; I do not believe in the policy; I have never believed in it. I believe that the chartered banks, under proper control, should be permitted to enjoy a principal share of the circulation of the country; but it is perfectly legitimate for the Government to have a portion of the note circulation—circulation that is not forced—that which comes naturally."

The Hon. Mr. Plumb not only considers himself quite an authority on financial matters, but it is generally supposed he expected to be Finance Minister in place of the Hon. Mr. Tilley, but did not secure his election, and may be said to represent the views of the Government on the currency question. While it is quite possible that Mr. Tilley takes a more correct view, he is but one of the Ministry and cannot move faster than the majority.

Mr. Plumb's speech to a large extent also explains the ideas of the bankers, who reported at their convention at Niagara Falls that in currency matters the

Government had been guided by their influence—a very bad one for them as well as the country.

In the above quotation our financial senator states that a national or Government currency is perfectly legitimate, and yet he says he does not believe in the policy and never has; that is, he does not believe in a policy that he considers to be a perfectly legitimate one. He believes that the chartered banks should enjoy a principal share of the circulation—to enjoy is to have the profits, for that is the only enjoyment a bank can have.

The "enjoyment" on the present issue of bank notes is about $2,380,000 on the $34,000,000 of notes in circulation. Under a national, or what Mr. Plumb calls a "perfectly legitimate," currency that enjoyment would go to the people, and not to the banks. It would thus appear that he is working for the banks rather than for his constituents, from whom he gets his $1000 a year and traveling expenses.

He believes the banks should be "permitted" to do the issuing, which is equivalent to saying that they have no right to issue currency, for rights require no permission. As they have no right, but only a permission out of which they derive great profits at the expense of the people, what right have this and other senators to, through this permission, indirectly compel the people to indirectly furnish the banks with $34,000,000 of their earnings, and also pay seven per cent. interest on it? For, as we have seen, that is the practical outcome of this system of currency.

Yet, Mr. Plumb believes that the stockholders should be permitted, unmolested, to enjoy this $2,380,000 of annual profit at the expense of Canadian producers.

He also states that he does not believe in a currency being "forced" upon the people by the Government. No sensible man does, but, in consequence of the scarcity of our Government currency the people are "forced" to use the bank currency. They would not use a dollar of it any more than do the people of the United States, if they could get enough of the national currency. Thus it is evident that while Mr. Plumb is not willing to see a Government currency "forced" on the people, he is perfectly willing that the banks should continually enjoy the privilege of "forcing" their currency on the people.

Mr Plumb has also a further belief that a Government currency should "come naturally." That is exactly the belief of those who believe in a true national currency—that not a dollar of national currency should be issued to any man until he has earned it on some public work; it would then be an earned, a value, a natural and a true national currency. Whereas, the bank currency is as far from being a natural currency, or one based upon earnings, as is possible to conceive.

As not a dollar of it has been earned it is worth nothing to the country or to the man who receives it from the bank, unless his creditor is willing to take it

from him as payment. He cannot compel his creditors to receive it, for while it is a permitted currency, it is not money nor is it legal tender, consequently it cannot be a natural currency.

It is perfectly clear that Mr. Plumb has yet a good deal to learn on the currency question; his beliefs are altogether out of harmony with his theories and his desires in this matter conflict with the principles of truth and equity. His beliefs and disbeliefs do not in the least affect the bearing of his affinities, they are unmistakably with the issuers of our present unnatural currency, whereby these currency—not money—lenders impoverish the country.

It may be well to here add that the Government by making the Dominion notes redeemable in gold places itself at the mercy of the importers, for as the banks are drained they call upon the Government to redeem its notes. The following is from the *Montreal Gazette*:

"It will be remembered that in the opening months of 1875 a severe strain was put upon the gold resources of the Treasury by the presentation for redemption Dominion notes held by the banks, in order to procure gold for the purposes of exchange."

That is to pay for over-importations. Had the Government followed the example set by both France and England, as hereinbefore stated, and made the bank and Dominion notes absolutely legal tender, there would have been no difficulty except to the importers of goods that should not have been imported.

$60,548,994 Society Loans.

The above is the amount of mortgages held by Loan and Savings Societies in the Dominion, on 1st Jan., 1882, being an increase in the past year of $4,130,567. The Toronto *Mail* says three-fourths of the farms in Ontario are under mortgage.—The mortgages held by private parties are probably about $60,000,000. The debt to the banks for capital and deposits sold to pay for over importations is about $125,000,000. The *Economist* says Canada owes England $350,000,000. This makes a total debt of $595,000,000 of that class of debts on which the producers are paying interest.

The assessable wealth of Canada in 1876 was scarcely $700,000,000; deducting from this the interest-bearing debt as above there is a margin of only $105,000,000 to stand against all other notes and book debts owing. A reform is of pressing importance.

What Each Class Should Do.

It is the duty of every voter to thoroughly examine this great question, of every business man to give it his earnest attention, of every bank stockholder to investigate it, and for every bank manager to repeatedly peruse the data given and consider whether the history furnished in these pages does not justify them in turning over a new leaf and adopting a remedy through which the banks may be delivered from the power of either ignorant or selfish importers, from the impending losses and failures of which they are continually in danger.

The reform required is simple—a true national currency. It must be secured by a united effort, and waiting its adoption a continual effort on the part of the bankers should be made to bring the sale of foreign exchange within the sum of our exports.

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APPENDIX.

Bank Dividends.

Mr. Smithers, president of the Bank cf Montreal, stated in April 1882, that the discounts of all the banks was $176,000,000, and warned the business men against an increase. In September 1882 he reported that the discounts were $181,000,000, or an increase of $5,000,000 in five months. The interest on $176,000,000 at seven per cent. for five months is $6,150,000, which shows that in the five months the banks only received $1,150,000 of interest, the other $5,000,000 that should have been received being paid by larger notes or more of them, consequently of the six months' dividends paid in that period only $1,150,000 were paid out of received earnings, and the balance, or about 1,500,000, was paid out of deposits on interest, which practically means out of capital. This has been continually done in past years as the following will show:

On Nov. 20th, 1879 there was $137,457,558 of loans and discounts; On Feb. 28th, 1882, there was $184,014,933, or an increase of $46,557,775. The interest on the $137,457,158 at seven per cent. for that three and one quarter years is $30,677,007. If that sum is deducted from the increased discounts in the three and a quarter years there is a balance of $15,880,768 as the sum of business expansion, a probable amount, which makes it clear that all the interest on the sum under loan and discounts from Nov. 30th, 1879, to Feb. 28th, 1882, was paid by larger notes or more of them. In whatever way it may have been arranged by individual borrowers, that is clearly the aggregate showing.

We find that the increase in circulation in the three and a quarter years was $12,217,297 which added to the increase of $802,944 in capital and $21,576,602 in deposits on interest, makes $34,306,843.

Then we find that the average amount of capital for the year was about $61,000,000, which averaging the dividends at eight per cent. would be $4,800,000 annually, or for the three and a half years $15,820,000. As this said sum could not have come out of received earnings, the whole must have come out of the increased capital and deposits on interest. If the stockholders think it will pay to borrow money on interest to pay dividends there are some others who do not.

It was by this system of paying dividends with borrowed money that the stockholders of the Consolidated Bank found, when it was wound up, that about six dollars out of every seven, or $3,000,000 of their capital had practically been eaten up in dividends, and, as reported in the *Mail* of June 13th, 1882, Mr. P. S. Ross, who is settling up the business of the bank in court, said, "The manager of the bank could not have foreseen that it was insolvent unless he knew that the debts that proved to be bad were actually so." It would seem from this evidence that one bank may have enough bad debts and borrowed money drawing interest to eat up the capital and the manager not know it. And yet these institutions have long been considered as the most stable monetary institutions possible.

The *Mail* of June 1st, 1883, reported that "The Montreal City Passenger Railway is nearly all held by speculators on margins, the banks being the real holders." It thus seems that in place of the banks interested doing a banking business with the capital it is all sold to the importers, and the managers are borrowing deposits on interest to loan to speculators in street railway stocks, at the expense of the bank stockholders, just as the Bank du People ventured $100,000 on Abattoir stocks on which it is said they are now sueing the stockholders—and which they may never get.

The data given proves that our banking is not on a sound foundation, that our financial interests are in a very unsatisfactory condition, that it is all important that we should have a sound, a true national currency, as described, through which the bank stockholders can be saved from the loss of their stocks and the country saved from another financial crisis.

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